

FOR IMMEDIATE RELEASE:

Furusato Announces Financial Results for the First Quarter Ended June 30, 2021 [Japan GAAP]

Osaka, Japan, August 2, 2021 – Furusato Industries, Ltd. announced its consolidated financial results for the three months ended June 30, 2021, the first quarter of the year ending March 31, 2022. All financial information has been prepared in accordance with accounting principles generally accepted in Japan. The following summary of the financial results is unaudited and for reference only.

Securities Traded : The First Section of the Tokyo Stock Exchange
Securities Code : 8087

All figures are rounded down to the nearest million yen.

CONSOLIDATED FINANCIAL RESULTS

1. Business Results

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020
Operating Results:	(Millions of Yen)	(Millions of Yen)
Net Sales	¥ 21,961	¥ 21,226
Operating Income	195	590
Ordinary Income	447	694
Net Income Attributable to Owners of Parent	188	403
Per Share Data:	(Yen)	(Yen)
Net Income Attributable to Owners of Parent	¥ 13.00	¥ 27.80
	As of June 30, 2021	As of March 31, 2021
Financial Position:	(Millions of Yen)	(Millions of Yen)
Total Assets	¥ 65,859	¥ 66,512
Net Assets	43,887	44,261
Equity Ratio	66.3%	66.2%
Per Share Data:	(Yen)	(Yen)
Net Assets	¥ 3,010.52	¥ 3,036.29

Notes:

1. Comprehensive income

Three months ended June 30, 2021 ¥141 million, (74.3)%

Three months ended June 30, 2020 ¥553 million, 0.9%

2. Equity capital

June 30, 2021: ¥43,639 million

March 31, 2021: ¥44,013 million

3. Changes in major subsidiaries during the period under review

(Change in specific subsidiaries due to changes in the scope of consolidation): No

4. Adoption of special accounting methods for the preparation of quarterly consolidated financial statements: No
5. Changes in accounting principles, changes in accounting estimates, and retrospective restatements
- 1) Changes in accounting principles resulting from revisions in accounting standards: Yes
 - 2) Changes other than those in 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatements: No
6. Number of shares issued and outstanding (common stock)
- 1) Number of shares issued and outstanding at the end of period (including treasury stock)
 - June 30, 2021: 14,574,366 shares
 - March 31, 2021: 14,574,366 shares
 - 2) Number of treasury stock at the end of period
 - June 30, 2021: 78,825 shares
 - March 31, 2021: 78,612 shares
 - 3) Weighted average number of shares issued and outstanding for the period (consolidated, cumulative)
 - June 30, 2021: 14,495,658 shares
 - June 30, 2020: 14,496,188 shares

2. Dividends

	Dividends Per Share (Yen)				
	1Q	2Q	3Q	Year-end	Annual
Fiscal Year Ended March 31, 2021	-	5.00	-	35.50	40.50
Fiscal Year Ending March 31, 2022	-				
Fiscal Year Ending March 31, 2022 (Forecast)		-	-	-	-

CONSOLIDATED EARNINGS FORECAST FOR FISCAL 2021, ENDING MARCH 31, 2022

Furusato has not determined its consolidated earnings forecast for fiscal 2021, ending March 31, 2022 at this point. Please refer to “2. Earnings Forecast for fiscal 2021, ending March 31, 2022” in the section “RESULTS OF OPERATIONS (THREE MONTHS ENDED JUNE 30, 2021)” on P4 for its earnings forecasts.

*This material contains forward-looking statements that reflects Furusato's plans and expectations. These forward-looking statements are based on information currently available and a rational evaluation based on certain assumptions that may cause Furusato's future results to be materially different from any future results expressed or implied by these forward-looking statements due to various factors including change of business environment, market trend and others.

RESULTS OF OPERATIONS (THREE MONTHS ENDED JUNE 30, 2021)**1. Analysis of Operating Results****(1) Overview of Results**

During the three months ended June 30, 2021, the Japanese economy remained uncertain throughout the entire period, while the new coronavirus infection (COVID-19) still has affected the economic activities amid no signs of its convergence, although progress in vaccination was expected to contribute to the recovery of economic activities. In regard to corporate activities, as production shows signs of picking up, the effects of policies and other factors are expected to impact the economy.

The business environment and overview by segment are as follows:

(Equipment and Tools Segment)

Regarding the business environment, the industrial production index (April-June period) increased by 19.8% year over year, while the automotive production index (April-June period) increased by 68.6% year over year, but recorded a period-over period decrease for two consecutive quarters. The new housing starts, a leading indicator, (January-March period) decreased by 1.6% year over year.

The summary of each business is as follows:

【Industrial Equipment Business (Up 16.6% Y-o-Y)】

The sales recorded a year-over-year increase, led primarily by built-in equipment of transmission system-related supplies as well as favorable sales for semiconductor-related supplies.

【Machine and Tools for Automotive Business (Down 2.9% Y-o-Y)】

The sales recorded a year-over-year decrease, negatively impacted mainly by low factory operating ratio in the automotive industry.

【Housing Equipment Business (Up 14.6% Y-o-Y)】

The sales recorded double-digit year-over-year growth as a result of efforts on increasing orders despite showing signs of recovery in demand for new housing and others.

【Security Business (Down 40.7% Y-o-Y)】

The sales recorded a year-over-year decrease due to slowdown in sales of thermal cameras which were a special factor in the previous fiscal year.

(Machine and Facility Segment)

Regarding the business environment, the domestic demand for machine tools (April-June period) increased by 81.7% year over year.

The summary of each business is as follows:

【Machine Tool Business (Down 7.3% Y-o-Y)】

The sales recorded a year-over-year decrease because of low backlog of orders, which was expected to record as sales in this quarter. The orders received during the period increased by 51.6% year over year, while the order backlog at the end of period increased by 30.0% year over year.

【Factory Automation Business (Down 25.1% Y-o-Y)】

The sales recorded a year-over-year decrease due to fading the impact of a big project in the first quarter of fiscal 2020. The orders received during the period was up 60.5% year over year, while the order backlog at the end of period was down 23.7% year over year.

(Construction and Piping Products Segment)

Regarding the business environment, the construction starts of steel frame buildings by floor area (January-March period), a leading indicator, increased by 7.9% year over year. The steel price rose, impacted mainly by the high prices of steel scrap exported from Japan.

The summary of each business is as follows:

【Building Supplies Business (Up 2.9% Y-o-Y)】

The sales recorded a year-over-year increase due to maintaining sales prices, backed by the steel price hike as demand for steel frame buildings showed signs of recovery in the latter half of the period following hitting the bottom.

【Piping Products Business (Up 2.9% Y-o-Y)】

The sales recorded year-over-year growth due to securing big projects such as big machines, while construction projects were downsized, impacted by reduced budgets, and suspended due mainly to the declaration of the state of emergency.

Accordingly, consolidated net sales increased by 3.5% year over year to ¥21,961 million. On the earnings front, operating income decreased by 66.9% year over year to ¥195 million due to deteriorated gross profit ratio based on decreased sales of the Security Business and an increase in SG&A expenses, and ordinary income decreased by 35.5% year over year to ¥447 million. Consequently, net income attributable to owners of parent was ¥188 million, down 53.2% year over year.

The summary of each segment is as follows:

	Net Sales	Y-o-Y	Operating Income	Y-o-Y
Equipment and Tools	¥11,691M	+7.6%	¥53M	(83.9)%
Machine and Facility	¥2,595M	(10.5)%	¥(28M)	-
Construction and Piping Products	¥7,674M	+2.9%	¥136M	(31.8)%

2. Earnings Forecast for fiscal 2021, ending March 31, 2022

As the announcements “Notification Regarding Integration of Maruka Corporation and Furusato Industries Ltd. through Establishment of Joint Holding Company (Share Transfer)”, disclosed on May 7, 2021 and “(Amendment to Matters Disclosed) Notification Regarding Integration of Maruka Corporation and Furusato Industries”, disclosed on May 11, 2021, Maruka Corporation and Furusato have reached an agreement with respect to the establishment of MARUKA FURUSATO Corporation, which will be the wholly owning parent company of both companies through a joint share transfer scheduled to become effective on October 1, 2021 upon the resolution of the respective meetings of the Boards of Directors of both companies held on May 7, 2021. Therefore, the consolidated earnings forecast for fiscal 2021, ending March 31, 2022, has not determined.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	Thousands of Yen	
	March 31, 2021 Amounts	June 30, 2021 Amounts
Assets		
Current assets:		
Cash and deposits	¥ 14,093,323	¥ 13,962,004
Notes and accounts receivable-trade	18,817,569	-
Notes and accounts receivable - trade, and contract assets	-	18,223,301
Electronically recorded monetary claims-operating	3,924,145	4,174,245
Securities	300,708	-
Merchandise and finished goods	4,550,481	4,808,102
Work in process	456,601	533,538
Raw materials and supplies	132,169	131,138
Other	909,311	1,039,931
Allowance for doubtful accounts	(5,692)	(6,592)
Total current assets	43,178,617	42,865,670
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	5,298,323	5,229,917
Machinery, equipment and vehicles, net	727,940	700,022
Land	8,928,859	8,928,859
Construction in progress	494	5,403
Other, net	318,129	306,180
Total property, plant and equipment	15,273,747	15,170,383
Intangible assets:		
Goodwill	608,337	578,619
Trade right	1,400,000	1,360,000
Other	818,471	819,650
Total intangible assets	2,826,809	2,758,270
Investments and other assets:		
Investment securities	3,017,411	2,967,158
Retirement benefit asset	1,034,818	1,044,396
Deferred tax assets	129,547	43,586
Other	1,130,124	1,091,956
Allowance for doubtful accounts	(78,635)	(82,411)
Total investments and other assets	5,233,267	5,064,686
Total non-current assets	23,333,824	22,993,340
Total assets	¥ 66,512,442	¥ 65,859,010

Note: All figures are rounded down to the nearest thousand yen.

	Thousands of Yen	
	March 31, 2021 Amounts	June 30, 2021 Amounts
Liabilities		
Current liabilities:		
Notes and accounts payable-trade	¥ 12,215,679	¥ 11,781,243
Electronically recorded obligations - operating	6,132,644	6,401,550
Income taxes payable	439,554	265,821
Provision for bonuses	709,267	960,017
Provision for bonuses for directors	17,300	6,062
Other	1,528,291	1,451,251
Total current liabilities	21,042,737	20,865,947
Noncurrent liabilities:		
Deferred tax liabilities	913,295	798,623
Provision for share-based remuneration for directors	10,196	10,196
Retirement benefit liability	77,673	85,821
Other	206,595	210,646
Total non-current liabilities	1,207,759	1,105,288
Total liabilities	22,250,496	21,971,235
Net Assets		
Shareholders' equity:		
Share capital	5,232,413	5,232,413
Capital surplus	5,997,217	5,997,217
Retained earnings	31,307,517	30,980,544
Treasury shares	(85,725)	(86,080)
Total shareholders' equity	42,451,422	42,124,094
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,357,020	1,321,823
Remeasurements of defined benefit plans	204,819	193,150
Total accumulated other comprehensive income	1,561,840	1,514,973
Non-controlling interests	248,683	248,706
Total net assets	44,261,945	43,887,774
Total liabilities and net assets	¥ 66,512,442	¥ 65,859,010

Note: All figures are rounded down to the nearest thousand yen.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Thousands of Yen

	Three months ended	Three months ended
	June 30, 2020	June 30, 2021
	Amounts	Amounts
Net sales	¥ 21,226,183	¥ 21,961,167
Cost of sales	17,685,657	18,538,400
Gross profit	3,540,526	3,422,766
Selling, general and administrative expenses	2,949,747	3,227,125
Operating income	590,778	195,640
Non-operating income:		
Interest income	1,267	1,183
Dividend income	28,128	27,246
Purchase discounts	118,318	113,713
Rent income	15,587	16,279
Surrender value of insurance policies	500	85,527
Other	13,062	11,517
Total non-operating income	176,863	255,467
Non-operating expenses:		
Interest expenses	7	-
Sales discounts	64,275	-
Rental cost	1,085	1,024
Other	7,534	2,227
Total non-operating expenses	72,903	3,251
Ordinary income	694,738	447,856
Extraordinary loss:		
Loss on valuation of investments in capital of subsidiaries and associates	-	31,842
Total extraordinary loss	-	31,842
Income before income taxes	694,738	416,014
Income taxes-current	282,490	235,867
Income taxes-deferred	(30,677)	(8,326)
Total income taxes	251,813	227,541
Net income	442,925	188,473
Net income attributable to non-controlling interests	39,915	23
Net income attributable to owners of parent	¥ 403,009	¥ 188,449

Note: All figures are rounded down to the nearest thousand yen.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Thousands of Yen			
	Three months ended June 30, 2020		Three months ended June 30, 2021	
	Amounts		Amounts	
Net income	¥	442,925	¥	188,473
Other comprehensive income:				
Valuation difference on available-for-sale securities		113,928		(35,197)
Deferred gains or losses on hedges		(199)		-
Remeasurements of defined benefit plans, net of tax		(2,771)		(11,669)
Total other comprehensive income		110,957		(46,866)
Comprehensive income:		553,882		141,606
Comprehensive income attributable to				
Comprehensive income attributable to owners of the parent		513,967		141,582
Comprehensive income attributable to non-controlling interests	¥	39,915	¥	23

Note: All figures are rounded down to the nearest thousand yen.

(3) Notes to Consolidated Financial Statements

(Notes on Premise of a Going Concern)

Not applicable

(Notes in the Event of Significant Changes in the Amount of Shareholders' Equity)

Not applicable

(Accounting Standard for Revenue Recognition and Other Accounting Changes)

Furusato has been implementing the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29. Issued on March 31, 2020, hereinafter "Accounting Standard for Revenue Recognition") since the beginning of the first quarter of this fiscal year. The new standard recognizes revenues for goods or services based on the amount estimated to be received in exchange for such goods or services at the point when control of the promised goods or services is conveyed to the customer.

The main changes involved are described below.

(1) Recognizing revenue for agent transactions

For certain transactions that only involve Furusato as an agent in providing goods or services to a customer, the entire amount received as compensation from the customer was previously recognized as revenue, but now only the difference between the amount received from the customer and the amount paid to the supplier is recognized as revenue.

(2) Revenue recognition on transaction price

With respect to revenue recognition related to transaction prices, Furusato recorded the amount of money generated from rebate contracts with major distributors based on the degree of achievement of sales amounts as selling, general and administrative expenses. However, we have changed its method of calculating the transaction price of such contracts to reflect the impact of variable consideration. In addition, we have also changed its method of calculating sales discounts, which had been recorded at the time of collection of sales proceeds, to reflect the effect of variable consideration.

(3) Revenue recognition for construction contract

In the past, construction contracts related to the Security Business were recognized as revenue based on the completed contract method because the degree of completion could not be reasonably estimated. However, for transactions in which the consideration for the performed portion of the contract is guaranteed, we have changed our method of recognizing revenue based on the cost recovery method when the performance obligation is expected to be satisfied within a certain period of time and the costs incurred in satisfying the performance obligation are expected to be recovered.

We have been implementing the Accounting Standard for Revenue Recognition transitionally, in accordance with the provision in Article 84 of the standard, by calculating the cumulative effect of retroactively applying the new policy from before the beginning of this fiscal year, adjusted for retained earnings at the beginning of this fiscal year, and applying the new policy to the remaining balance at the beginning of this fiscal year.

Furthermore, using the method specified in explanatory note (1) of Article 86 in the standard, retained earnings at the beginning of this fiscal year are adjusted by the cumulative monetary effect of contract terms and conditions effective after applying all contractual changes made before the beginning of this fiscal year.

As a result, during the three months ended June 30, 2021, net sales were down ¥284,899 thousand, cost of sales was down ¥201,002 thousand, SG&A expenses were down ¥5,382 thousand, operating income was down ¥78,513 thousand, and ordinary income and net income were unchanged. Therefore, there was no impact on retained earnings at the beginning of this fiscal year.

As a result of the application of the revenue recognition accounting standard, "Notes and accounts receivable-trade," which was included in "Current assets" in the consolidated balance sheet for the previous fiscal year, is now included in "Notes, accounts receivable-trade and contract assets" from the first quarter of the current fiscal year. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made in the previous fiscal year to conform to the new presentation.

(Application of Accounting Standards for Calculation of Fair Value, etc.)

The "Accounting Standard for Measurement of Fair Value" (ASBJ Statement No. 30, July 4, 2019,

hereinafter referred to as the "Accounting Standard for Measurement of Fair Value") is based on the "Accounting Standard for Measurement of Fair Value. Accounting Standard for Measurement of Fair Value (hereinafter referred to as the "Accounting Standard for Market Value Measurements").

In accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Measurement of Fair Value and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), we have decided to apply the new accounting policies set forth in the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), Paragraph 44-2, prospectively. The effect of this change on the quarterly consolidated financial statements is not material.

SEGMENT INFORMATION

1. Three months ended June 30, 2020 (from April 1 to June 30, 2020)

(1) Information on net sales and operating income (loss) by business segment reported

(Thousands of Yen)

	Net sales			Operating income
	To customers	Intersegment	Total	
Business segment reported				
Equipment and Tools	¥ 10,868,864	¥ 249,383	¥ 11,118,248	¥ 331,928
Machine and Facility	2,899,997	256,157	3,156,154	24,977
Construction and Piping Products	7,457,321	2,747	7,460,069	200,257
Subtotal	21,226,183	508,288	21,734,472	557,163
Adjustment (*1)	-	(508,288)	(508,288)	33,614
Total amounts on the consolidated statements of income (*2)	¥ 21,226,183	-	¥ 21,226,183	¥ 590,778

Note:

- Adjustment of operating income (loss), ¥33,614 thousand, incorporates elimination of intersegment transaction, ¥36,606 thousand, adjustment of inventory, ¥(3,585) thousand, and adjustment of noncurrent assets, ¥594 thousand.
- Operating income (loss) for segment is adjusted on operating income on the quarterly consolidated statements of income.

(2) Information on impairment loss of noncurrent assets, goodwill, etc. for each reportable segment

None

2. Three months ended June 30, 2021 (from April 1 to June 30, 2021)

(1) Information on net sales and operating income (loss) by business segment reported

(Thousands of Yen)

	Net sales			Operating income
	To customers	Intersegment	Total	
Business segment reported				
Equipment and Tools	¥ 11,691,286	¥ 255,792	¥ 11,947,079	¥ 53,481
Machine and Facility	2,595,453	27,175	2,622,629	(28,946)
Construction and Piping Products	7,674,426	3,865	7,678,291	136,611
Subtotal	21,961,167	286,833	22,248,000	161,145
Adjustment (*1)	-	(286,833)	(286,833)	34,494
Total amounts on the consolidated statements of income (*2)	¥ 21,961,167	-	¥ 21,961,167	¥ 195,640

Note:

- Adjustment of operating income (loss), ¥34,494 thousand, incorporates elimination of intersegment transaction, ¥37,225 thousand, adjustment of inventory, ¥(3,276) thousand, and adjustment of noncurrent assets, ¥545 thousand.
- Operating income (loss) for segment is adjusted on operating income on the quarterly consolidated statements of income.

(2) Information on impairment loss of noncurrent assets, goodwill, etc. for each reportable segment

None

(Significant Subsequent Event)

None